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NORTHGATE EXPLORATION LIMITED

**SEMI-ANNUAL REPORT
FOR THE PERIOD ENDED
JUNE 30, 1970**



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NORTHGATE EXPLORATION LIMITED

Suite 2602

Royal Trust Tower

P.O. Box 27, Toronto-Dominion Centre
Toronto 111, Canada

To the Shareholders:

The Board of Directors present the operating results for the six months ended June 30, 1970. Statements of consolidated income and source and application of funds for this period and the corresponding period in 1969, and comparative figures for the first and second quarters of the current year, are attached.

Also included is a financial statement combining the income of Northgate Exploration Limited and Gortdrum Mines Limited to reflect retroactively for the six months ended June 30, 1970, the effect of the purchase by Northgate (through its wholly owned subsidiary, Enfer Holdings Limited) of the assets and undertaking of Gortdrum Mines Limited on a 'pooling of interests' or fully diluted basis.

Shareholders of Gortdrum Mines Limited approved the sale of its assets and undertaking to Northgate at the Annual and General Meeting held on July 17, 1970. The sale was completed on August 14, 1970.

Operations

During the three months ended June 30, 1970, the mill treated a total of 178,779 tons of ore from which a total of 42,884 tons of concentrates was produced. The following tables show the tons and grades of the various basic ore types treated during this period and the concentrates produced from the respective ore types:

Ore Treated

Ore Type	Tons	Mineral Content			
		Lead %	Zinc %	Copper %	Silver Ozs/Ton
Sulphide	104,145	13.07	8.21	0.40	3.45
Oxide	43,329	11.58	—	1.00	6.26
Mixed Oxide	31,305	7.18	8.63	—	2.28
	178,779				

From	Concentrates Produced (Tons)		
	Lead	Zinc	Bulk
Sulphide Ore	14,079	6,519	8,904
Oxide Ore	9,374	—	—
Mixed Oxide Ore	701	—	3,307
	24,154 Tons	6,519 Tons	12,211 Tons

Financial Results

As shown in the attached consolidated statement of income, cash flow for the three months ended June 30, 1970, amounted to \$3,024,000

equal to 59¢ per issued share and consolidated net income for this period was \$2,442,000 or 47¢ per share. These figures include a gain on the sale of investments amounting to \$32,000 and a loss of \$214,000 resulting from the unpegging of the Canadian dollar during this period.

Excluding the adverse effect of the free Canadian dollar exchange rate, cash flow and net income for the above period would have approximated 63¢ per share and 52¢ per share, respectively.

The cumulative cash flow for the six months ended June 30, 1970, amounted to \$6,814,000 equal to \$1.32 per issued share and net income for this period was \$5,695,000 or \$1.11 per share. Excluding the gain from the sale of investments during this period amounting to \$623,000, net income was \$5,072,000 or 98¢ per share. The comparable figures for the corresponding period in 1969 were cash flow of \$6,310,000 equal to \$1.22 per share and net income of \$5,229,000 or \$1.02 per share.

The foregoing figures and those shown on the consolidated financial statement 'A' reflect the **actual** shares outstanding (5,154,200) at June 30, 1970.

The separate consolidated financial statement 'B' combining the income of Northgate Exploration Limited and Gortdrum Mines Limited is presented with the figures restated to reflect retroactively for the six months ended June 30, 1970 (and comparative figures similarly restated for the corresponding period in 1969), as if these two companies and their wholly owned subsidiaries had been merged throughout this period and on the basis of 5,981,779 shares being outstanding when the Gortdrum purchase has been completed.

As previously mentioned, it is anticipated that the purchase agreement will be finalized on or about August 14, 1970, at which time 827,599 shares of Northgate will be issued in consideration of the purchase of the assets and undertaking of Gortdrum Mines Limited. All subsequent financial statements will reflect this acquisition and the issue of the additional shares; and the transaction will be treated as a 'pooling of interests' for accounting purposes.

Financial results for the third quarter or the three months ended September 30, 1970, are expected to be lower than average, principally the effect of the commencement of operation of the zinc calcine plant to treat zinc oxide ore for which below capacity throughput and metallurgical recoveries were considered in estimating probable concentrate production of this ore type. A tonnage of mixed oxide ore is also scheduled for treatment during the third quarter.

The present forecast of operations for the last six months of 1970, assuming the metal prices stated below, on the basis of combining the income of Northgate and Gortdrum on a fully diluted basis of 5,981,779 shares outstanding, would indicate a probable cash flow of approximately \$5.7 million and consolidated net income of approximately \$3.1 million, the equivalent of 96¢ per share and 52¢ per share, respectively.

This would indicate full year cash flow equal to about \$2.28 per share and net income around \$1.54 per share with the income of Northgate and Gortdrum combined and on the basis of 5,981,779 shares outstanding for all of 1970.

The above forecast does not reflect any year end adjustment relating to profit or losses on investments.

In connection with the foregoing forecast of earnings for 1970, the increased differential between cash flow and net income when treating the figures of Northgate and Gortdrum on a combined basis reflects in part the inclusion of additional non-cash write offs and bond interest attributable to Gortdrum as well as the provision of approximately \$615,000 for exploration outside the mine areas during the second half of 1970 compared with actual exploration expenditures (on a combined basis) during the first six months of \$275,000.

Metal prices (basis London Metal Exchange) used in estimating probable financial results for the six months ended December 31, 1970, are as follows:

	<u>Sterling</u>	<u>Canadian Equivalent</u>
Lead	£120 per metric ton	13.4¢ per pound
Zinc	£127.95 per metric ton	14.3¢ per pound
Copper	£560 per metric ton	62.6¢ per pound
Silver	181 pence per ounce	\$1.86 per ounce

A price of US\$400 per 76-lb flask has been used in calculating revenue for mercury.

A variation of 5% in the price of lead will increase or decrease operating income during this six month period by approximately \$298,000; and a 5% variation in the price of zinc will similarly increase or decrease operating income by \$168,000. Variations in the prices of copper, silver and mercury will affect operating income to a somewhat lesser degree.

Affiliated Companies

Western Mines Limited, in which your Company owns a 22.4% equity interest (1,156,571 shares), announced on July 31, 1970, it has fully retired the \$7,000,000 Income Debenture issue and is now completely free of long term debt. The redemption of the remaining outstanding debentures brings to a total of \$11,000,000 in long term debts the company has repaid during the past 3½ years plus an additional \$2,614,000 in interest charges.

After the redemption of \$5,870,000 principal amount of the income debentures on July 31st, the company's working capital amounted to approximately \$2.7 million. The recently published interim report of Western Mines Limited dated July 31st also contained the following comment: "Your directors are aware of the desirability of commencing dividend payments and will no doubt give this matter careful consideration when the results for the year and the cash position at the end of the year are known".

In connection with its Paramount property, Western Mines stated: "In order to develop the new high silver ore discovery reported last April, a 15% 'decline' was started from surface about 140 below the No. 10 level portal.

Western Mines reported net income for the three months ended June 30, 1970, of \$1,060,270 equal to 20.5¢ per share. Cumulative net income for the six month period amounted to \$2,585,696 or 51¢ per share.

In connection with **Nadina Explorations Limited** in which your Company acquired an equity interest of 200,000 shares with options to purchase additional shares at prices escalating from \$5.00 per share, a decision was made not to exercise the option due June 19, 1970, to purchase 100,000 shares at \$5.00 per share. Accordingly, all rights under the option agreement were cancelled.

Westfield Minerals Limited — During July, in furtherance of its policy in realigning and consolidating inter-company relationships, your Company increased its holding in Westfield Minerals Limited to 1,868,717 shares equal to 45.7% of the total presently issued shares.

Concurrent with the acquisition of additional shares of Westfield Minerals Limited, your Company sold 700,000 shares of **Silver Eureka Corporation** thereby reducing its interest in the latter company to 100,000 shares.

Among other assets, Westfield Minerals Limited owns 3,750,000 shares of Whim Creek Consolidated N. L. and has an option to purchase an additional 2,750,000 shares, exercisable on or before December 31, 1971, at a price of 75¢ per share.

As a result of this further acquisition of Westfield shares, your Company's beneficial interest in **Whim Creek Consolidated N. L.** has increased to 33.3% of the latter's presently issued 11,000,000 shares. Your Company also has an option to purchase an additional 2,250,000 shares of Whim Creek on or before December 31, 1971, at a price of 75¢ per share.

Whim Creek Consolidated is engaged in an extensive exploration program in Western Australia including diamond drilling on the Whundo Joint Venture; geophysical surveying on the Roebourne Joint Venture; and reconnaissance exploration on the company's mineral holdings in the general Roebourne Area.

Considerable diamond drilling and metallurgical test work has been carried out on the former copper producing Whim Creek property to provide data for the completion of a feasibility study which will determine whether the property can be put into production. It is anticipated that the feasibility study will be completed early in the fourth quarter of 1970.

The Whim Creek Property is equipped with a treatment plant capable of handling 200 tons of ore per day, together with certain ancillary equipment and buildings.

A part of the properties in the Whim Creek Area, including the former Mons Cupri workings, is subject of an agreement between Whim Creek

Consolidated and Australian Inland Exploration Company, Inc. (a subsidiary of Texas Gulf Sulphur Company, Inc.) on terms of which A. I. E. has earned a $68\frac{1}{3}\%$ interest with Whim Creek Consolidated retaining a carried interest of $31\frac{2}{3}\%$. Under the agreement, A. I. E. had the right, exercisable up to June 30, 1970, and provisionally extended to July 30, 1970, to acquire an additional $16\frac{2}{3}\%$ interest by the payment to Whim Creek of \$1 million.

Discussions with A. I. E. did not result in any arrangements satisfactory to Whim Creek for the amendment of certain of the terms of the original agreement dated April 16, 1968, and A. I. E. formally advised that it had relinquished its right to acquire this additional $16\frac{2}{3}\%$ interest. Whim Creek Consolidated still retains its $31\frac{2}{3}\%$ carried interest in the subject property and the terms of the original agreement remain unchanged.

As previously reported, an underwritten public offering of treasury shares of Whim Creek Consolidated in Australia was completed last March providing the treasury of that company an additional \$3.6 million (Australian currency) working capital.

Your Company has agreed to purchase a minority interest in Obaska Lake Mines Limited. At a recent special general meeting shareholders of Obaska approved the consolidation of the company's shares and changing the company name to **International Obaska Mines Limited**. Northgate will have three representatives on the board of directors of International Obaska. Obaska holds, among other properties, a group of 25 claims in the Sturgeon Lake area of Ontario, Canada.

Your Company, directly and through its affiliated companies continues its active exploration program in Canada, Ireland and Spain.

On behalf of the Board of Directors,

14 August, 1970.

Patrick J. Hughes,
President.

NORTHGATE EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

SIX MONTHS ENDED JUNE 30, 1970

(with comparative figures for 1969)

(Expressed in Canadian Dollars)

Tons of ore treated	
Production of concentrates:	
Tons of lead concentrates	
Tons of zinc concentrates	
Tons of bulk concentrates	
Total tons of concentrates	
Gross value of metal production	
Deduct shipping, smelting and marketing charges	
Net smelter value	
Operating expenses:	
Mining, milling, administrative and general expenses, and government royalty	
Operating income before depreciation and amortization	
Deduct depreciation and amortization of preproduction expenditures	
Other expenses:	
Exploration	
Non-operating revenue:	
Interest earned and sundry income	
Gain on sale of investments	
Deduct loss on freeing of Canadian dollar	
NET INCOME	
Cash Flow:	
Net income	
Add non-cash write-offs	
Cash flow per share issued	
Net income per share issued	

FINANCIAL STATEMENT 'A'

First Quarter 1970	Second Quarter 1970	Six Months Ended June 30 1970	1969
190,607	178,779	369,386	328,259
30,791	24,154	54,945	53,742
—	6,519	6,519	14,324
4,493	12,211	16,704	17,176
35,284	42,884	78,168	85,242
\$ 6,262,000	\$ 6,945,000	\$13,207,000	\$13,301,000
1,509,000	2,022,000	3,531,000	4,167,000
\$ 4,753,000	\$ 4,923,000	\$ 9,676,000	\$ 9,134,000
1,558,000	1,689,000	3,247,000	2,796,000
\$3,195,000	\$ 3,234,000	\$ 6,429,000	\$ 6,338,000
537,000	582,000	1,119,000	1,081,000
\$ 2,658,000	\$ 2,652,000	\$ 5,310,000	\$ 5,257,000
85,000	112,000	197,000	182,000
\$ 2,573,000	\$ 2,540,000	\$ 5,113,000	\$ 5,075,000
89,000	84,000	173,000	154,000
591,000	32,000	623,000	—
\$ 3,253,000	\$ 2,656,000	\$ 5,909,000	\$ 5,229,000
—	214,000	214,000	—
\$ 3,253,000	\$ 2,442,000	\$ 5,695,000	\$ 5,229,000
\$ 3,253,000	\$ 2,442,000	\$ 5,695,000	\$ 5,229,000
537,000	582,000	1,119,000	1,081,000
\$ 3,790,000	\$ 3,024,000	\$ 6,814,000	\$ 6,310,000
.73¢	.59¢	\$1.32	\$1.22
.63¢	.47¢	\$1.11	\$1.01

June 30, 1970

June 30, 1969

	Sterling	Canadian Equivalent	Sterling	Canadian Equivalent
Lead	£127 per metric ton	14.2¢ per pound	£119.09 per metric ton	13.7¢ per pound
Zinc	£127.95 per metric ton	14.9¢ per pound	£119.09 per metric ton	13.7¢ per pound
Copper	£604 per metric ton	67.7¢ per pound	£579.69 per metric ton	66.5¢ per pound
Silver	168 pence per ounce	\$1.73 per ounce	164 pence per ounce	\$1.76 per ounce

NORTHGATE EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (Unaudited)

Six Months Ended June 30, 1970

(with comparative figures for the six months ended June 30, 1969)

Source of funds	1970	1969
Net income for the period	\$5,695,000	\$5,529,000
Add charges to income not requiring cash outlay:		
Amortization and depreciation	1,120,000	1,081,000
	<u>6,815,000</u>	<u>6,610,000</u>
Application of funds		
Dividends to shareholders	1,331,000	1,385,000
Additions to fixed assets	893,000	286,000
Investments in and advances to other mining companies, less sales and repayments	1,908,000	4,894,000
Exploration and other expenditures deferred	466,000	404,000
Other applications	17,000	409,000
	<u>4,615,000</u>	<u>7,378,000</u>
Increase (decrease) in funds held	<u>\$2,200,000</u>	<u>\$ (768,000)</u>

FINANCIAL STATEMENT 'B'

NORTHGATE EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

Six Months Ended June 30, 1970

(with comparative figures for the six months ended June 30, 1969)

(Combining Northgate and Gortdrum — see notes below)

Revenue	1970	1969
From metals and metals concentrates	\$16,385,000	\$17,439,000
Less shipping, smelting and marketing expense	3,931,000	4,664,000
	<u>12,454,000</u>	<u>12,775,000</u>
Operating expenses		
Operating expenses other than items set out below	3,283,000	3,522,000
Administrative and general expenses	895,000	526,000
Government royalty	630,000	607,000
Interest on bonds	164,000	240,000
Depreciation	1,045,000	922,000
Amortization of pre-production, financing and other expenditures	733,000	718,000
Increase in inventories	(39,000)	(114,000)
	<u>6,711,000</u>	<u>6,421,000</u>
Net operating profit before exploration	5,743,000	6,354,000
Exploration	275,000	54,000
	<u>5,468,000</u>	<u>6,300,000</u>
Net operating profit	5,468,000	6,300,000
Add interest, dividends and profit on sale of investments	809,000	164,000
	<u>6,277,000</u>	<u>6,464,000</u>
Deduct loss on freeing of Canadian dollar	159,000	—
	<u>6,118,000</u>	<u>6,464,000</u>
Net income	<u>\$ 6,118,000</u>	<u>\$ 6,464,000</u>
Cash flow:		
Net income	\$ 6,118,000	\$ 6,464,000
Add non-cash write-offs	1,778,000	1,640,000
	<u>\$ 7,896,000</u>	<u>\$ 8,104,000</u>
Cash flow per share issued	\$1.32	\$1.35
Net income per share issued	\$1.02	\$1.08

(Basis 5,981,779 shares)

Note 1. This statement has been prepared on the basis of the pooling of interests method of accounting for the acquisition of the assets and undertaking of Gortdrum Mines Limited as though that acquisition had taken place prior to June 30, 1970 and 1969.

Note 2. Earnings per share for each of the six month periods have been calculated by dividing the combined earnings by the number of shares outstanding after the issue of shares for the assets of Gortdrum Mines Limited.

